API eREPORT

# User's Guide To Property Data

Australian PropertyInvestor

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# Investors have access to reams of data about Australia's property markets. But what does it all mean and how can investors use it to maximise their financial success?

**BY MATTHEW LIDDY**

There's a plethora of statistics available about Australia's property scene. Median house prices, median advertised rents, indicative gross yields, rental vacancy rates, days on market, auction clearance rates, and the list goes on.

But do you understand what all these numbers mean and how they should influence your investing?

Many investors find the lingo of property data too confusing; others are puzzled by the statistics' sometimes-contradictory nature.

The first rule about pretty much all the property statistics available is to use them as a guidebook, not a rulebook. None of the data is perfect. A median price doesn't represent every property in a suburb. Auction clearance rates might represent the health of a particular segment of the market, but they don't tell you why some properties are selling when others aren't.

That's not to say that studying the data isn't useful for property investors. It's just that investors need to go one step further before making a purchase by doing a little "shoe leather" research, the kind that involves getting out and about to investigate a local market.

Australian Property Monitors (APM) economist Matthew Bell says exploring property data is the best way for property investors to offset the risks of investing. It's vital for investors to understand the market they're buying into rather than taking a property spruiker or real estate agent's word at face value.

But Bell says investors shouldn't take things to the other extreme either, and invest on the back of statistics alone.

"It's important to know that top-level data… but I think people can't go past looking at comparable sales, talking to agents and especially going for a walk up the street and around the area where they're looking to buy."

Wakelin Property Advisory director Monique Wakelin agrees that buying on the back of statistics alone can lead investors up the wrong path.

"I know people who've made horrible mistakes in the property market," she says, "and all they do is sit behind a computer and look at median values and chart those, and then they go out, sight unseen almost, to a property and buy it based on what they reckon the median value for that suburb is… That's just a classic mistake."

Wakelin warns investors not to get too caught up in what any individual piece of data might mean

about a suburb. "You don't want to isolate one factor at the exclusion of everything else that makes a good investment," she says.

Demographic data, for instance, might be "one small part of the equation" but Wakelin says she'd never buy a property on the basis of that particular kind of statistic alone.

Property Planning Australia director Mark Armstrong says property data offers valuable insights into the market, when it's used correctly. But he too warns investors that pure statistics can only go so far.

"A lot of this stuff is broad-brush stuff. It's a very broad analysis, and the only way to really know what to buy is actually get into the market and do that groundwork," he says.

Margaret Lomas, author and chair of the Property Investment Professionals of Australia, is another analyst who conducts detailed analyses of multiple property markets around the country. But she too notes property investment is about much more than data.

"Remember, there are 20 must-ask questions for every purchase and data is only involved in a couple of them," Lomas says, referring to one of her books, *20 must ask questions for every property investor*.

In other words, property data is a powerful tool but it should be wielded with caution – and manipulated only by knowledgable, educated users.

To help in that education process, API has created a comprehensive guide to what property statistics are available, where to find them and what they mean.

There are essentially two types of data available about the property market. The first is data designed to provide an insight into the health of an entire property market, be it at national, state or suburb level. The second is data designed for use when making individual investment decisions.

The data presented in this guide is roughly presented in the order of where it sits on the continuum between these two types of figures, with the broader market statistics presented first.

## Median prices

Median house and unit prices are probably the statistical measure property investors are most familiar with; they're also easily misunderstood, misinterpreted and misused.

The median price is a way of measuring typical sale prices for property in a given location. It's the middle value of all sales over a given timeframe.

If, for example, 11 houses sold in the suburb of 'Exampletown', then if you ranked the sale prices from lowest to highest the sixth sale would provide the median price.

Medians aren't a perfect reflection of property prices, but they're the best measure available.

Bell says median prices are typically the first thing investors and analysts look at when they're investigating a location.

"They're useful but the downside of those is there's a bit of a lag between what's actually happening in the market and being able to see those pricing changes, because the data takes a while to flow through," he explains.

This makes median prices a historical measure; it takes time to collate all the prices being paid for property and put together a dataset that provides a reliable median price. Thus, most median price measures are at least three months old before they're available for publication.

API readers are probably most familiar with the median price data presented in the Databank section at the back of each month's issue. The median prices presented there cover a 12-month period. In the April 2010 issue, API presents data for the "12 months to 31 December 2009", meaning the medians are a representation of all the sales between January 1, 2009 and December 31, 2009.

If there are fewer than 10 sales in a suburb during the given 12-month period then that suburb's median price is considered "statistically not reliable", and it's excluded from the results.

API's data is sourced from APM, which gets access to sales data from the Valuer-General's office in each state and territory, as well as directly from real estate agents.

Take the data published in April 2010 for houses in Alawa in the Northern Territory as an example (Alawa is the first suburb listed in the NT houses data section, on page 129 of the April 2010 issue).

The data shows APM has tracked 39 house sales in Alawa over the 12 months to December 31, 2009. The median price recorded is $470,000, meaning that if you listed the 39 sales from the lowest price to the highest, the middle price (the 20th sale on that list) is $470,000.

Apart from the time lag Bell mentions, another weakness of median price data is that changes in the type of property being sold during different time periods will skew the result.

"For a particular time period, like for example while we had the boosted First Home Owner Grant, there were a lot of transactions in the lower price brackets and what that did was skew the median values," Wakelin explains.

"Conversely, when conditions get very strong and these grants sunset, there's a bias of transactions in the middle and upper range, and so that skews the median value."

Rismark International managing director Christopher Joye says there are other biases that can affect median price data too.

For example, if people build and transact bigger or smaller homes over time, then the median price may rise or fall, giving the impression that prices have climbed or fallen, when in fact they really haven't.

Renovations also cause problems for median prices, Joye notes, because if a lot of homes are renovated in a given suburb, that can artificially lift the median price, suggesting there has been capital growth, when in fact prices are higher because the houses being sold are better than they were previously.

Beyond the level of suburb-level median prices, a number of independent providers examine house

and unit prices at a capital city level. These data houses include APM, RP Data, Residex and the Australian Bureau of Statistics. Each of these providers has different methodologies, each with their own strengths and weaknesses. However, generally speaking, they show price trends over the longer term in a similar light.

Despite the biases and time lag involved, Bell says medians remain a good resource.

"It's useful and it can give a good direction about how prices are moving, but it's important for investors to get on the ground and look at things like the actual recent sales," he says. "That will give people an idea of whether those median prices have been affected by a lot of expensive sales or a lot of affordable sales, and they can look at properties of the same type as the one they're interested in."

Lawless agrees that median prices have their place, even though they might bounce around a little bit.

"They do provide a pretty good level of relativity in the market, in terms of what prices are being paid in a particular market in a particular timeframe," he says.

Joye also says medians remain useful.

"The median is useful if you want to simply know what the middle sales observation in, say, Melbourne was over the past, say, quarter," he says.

"This gives you a quick and easy-to-understand… guide for the price of the homes being purchased in the market…

"Median prices are also useful when seeking to address research questions that are targeted at identifying a 'representative' price at any particular point in time."

**"The median is useful if you want to simply know what the middle sales observation in, say, Melbourne was over the past, say, quarter."**

### Where to find median price data:

As mentioned earlier, API features median house and unit prices for suburbs around the country in its Databank section at the back of each month's magazine.

Investors can also find free median price information online.

APM offers a free property research tool to look up median house and unit prices around the country via the Home Price Guide website (http://bit.ly/bwXEzb). Research house RP Data (http://bit.ly/dcVQrO) and property portal Domain (http://bit.ly/duqkjx) also offer free suburb profiles, which include median price data.

The state and territory Real Estate Institutes each collate median price data in their jurisdictions; some make this data available freely online. Search online for "real estate institute" and the state or

territory you're interested in. The Commonwealth Bank offers a free property value guide online, based only off transactions it's involved in financing (http://bit.ly/dh1WHF).

## Median price growth

The next step up the data tree from a raw median price is to look at how the median price in a given location changes over time.

There are two sets of figures in API's Databank that fit this description. First up is median 12-month growth, represented as a percentage. Let's return to the example cited earlier of Alawa in the NT. Its median 12-month growth comes in at 11.6 per cent, which means its median price in the 12-month period ending on December 31, 2009 is 11.6 per cent higher than for the corresponding period ending on December 31, 2008.

The next median price growth figure in API Databank is annual growth over 10 years, again shown as a percentage.

For Alawa, in the April 2010 edition, this comes in at 11.9 per cent, which means that over the past 10 years Alawa's median house price has grown at an average rate of 11.9 per cent per year.

As you'd expect, all the same biases and limitations that affect the collection of straight median house prices also affect data for changes in those median prices over time.

Here's how Tim Lawless explains it: "Using medians to determine capital growth can be a little bit misleading, particularly if you're looking at areas that have a differentiated stock offering.

"What I mean by that is if you have a suburb that has a lot of waterfront housing or elevated housing that would have a significant premium attached to it, and on the other side you have houses that don't have those premium attributes, if you find that a lot of waterfront stock is selling it'll bring the median price up – and vice versa.

"So in areas that don't have that homogenous housing stock, you'll find that the median's going to be a lot more volatile and provide less indications of how prices have actually moved over time."

Lawless adds, "Before making an investment decision you really need to be drilling down a little bit further (than median prices) and actually looking at comparable sales, which is probably the real key to understanding what a particular property should be bought for."

Wakelin says it's best to examine changes in median prices only in annual periods (as presented in API Databank), rather than quarter-to-quarter, because the quarterly data doesn't smooth out the anomalies.

"I use median values and I use annual data to give me a broad, long-term trend – so overall the market is either going up, down or sideways," Wakelin notes. "Then I use the daily press to say, I know that one-bedroom apartments in Armadale are selling between this price and that price."

Armstrong also uses median prices for broader research, saying it's "really good to work out where we are in the broader market cycle, and looking at it over the long term".

"But we don't use median data at all when we're looking at individual asset selection," he notes. "I think if you're relying on median data for asset selection you're really not getting deep enough into the analysis that needs to be done."

It's important to understand that all the properties in a suburb aren't the same, and as a result median prices can't reflect everything that's happening in the market, Wakelin adds.

"That's why you never get two one-bedroom units selling for the exact same price – because they're not the same."

Changes in median prices are by their very nature historical data and for this reason, property author and chair of the Property Investment Professionals of Australia, Margaret Lomas, says the data has a limited application.

"It can only tell me what has happened, rather than what will happen," she says.

"Also, it doesn't usually reveal why something happened. For example, strong growth data may be due to a number of things, such as a short-term infrastructure project, and this impetus may not be sustainable into the future."

Investors need to pair median price movements in a suburb with other data and on-the-ground research before making an investment decision, Lawless says.

Experienced investors find that median price statistics are very useful, but only as guides. You can't take a figure for median price growth in a suburb and assume that your property's value will have climbed by the exact same proportion, for instance.

Investors shouldn't rely solely on past median price growth when deciding where to invest, as past results don't guarantee an area will continue to experience capital growth. Median price growth is, rather, best used as a starting point for research on where to invest and what to buy.

It's never the replacement for solid due diligence and on-the-ground research.

**Where to find price growth data:**

As noted, API publishes data for annual and 10-year changes in median prices in the Market Watch section at the back of each issue. Investors can also find free statistics on price changes via the same websites outlined earlier for median price data.

## Median rental values

Median rents are designed to provide an indication of rentals for properties in a particular location.

They work in a very similar manner to median prices, except they're covering a different data set – rentals rather than sales. As you'd expect, they suffer from many of the same biases as median sale prices.

However, Bell notes they're typically collected more quickly, so the time lag factor isn't always as severe.

The median rent in a suburb won't tell you what a top-end property will rent for, nor a low-end property, though it should give a hint at what a typical property might fetch in the rental market.

Monique Wakelin says median rents are much the same as median prices, in that investors should use them as a long-term guide only.

API's Market Watch section, published each month, provides median advertised weekly rental rates for thousands of suburbs across the nation, provided by APM. The median rent in a suburb is the mid-point of all advertised rents in the given suburb over the stated 12-month timeframe.

Returning to our earlier example of Alawa in the NT, the April 2010 data shows a median rental value of $475 over the 12-month period ending on December 31, 2009. That's 11.6 per cent higher than for the corresponding period ending on December 31, 2008.

APM research assistant Clinton McNabb explains that all rental information is based on advertised rents the company collects online.

"Only the most recent advertised rent amount is used to reflect as close (to) the rental amount as possible," he says.

"All APM data are validated against GNAF (Geocoded National Address File) and de-duplicated as we often collect the same data from various sources. All agents-reported data are also washed against the Valuer-General's results, which arrive at least eight weeks after."

**The median rent in a suburb won't tell you what a top-end property will rent for, nor a low-end property,**

### Where to find median rents:

As noted, API publishes median rents for thousands of suburbs in the Market Watch section towards the back of each issue of the magazine.

The governments in each state and territory also collect an official measure of rental levels in their jurisdiction. These may be even more accurate than APM's measure, which is based on advertised rents, however there's typically a longer lag time before this data is available. Some states make median rental reports available to the public. These reports are available via the following web addresses.

- Queensland: http://bit.ly/cyCL8
- NSW: http://bit.ly/bGXaF1
- Victoria: http://bit.ly/b6Nm2T

## Median rental yields

The rental yield on a property is the return an investor can expect to receive in rent, expressed as a percentage of the purchase price of the property.

The rental yield on an individual property is calculated by multiplying the weekly rent by 52 (for weeks per year), dividing that figure by the purchase price of the property, and then multiplying the result by 100 to create a percentage. The resulting yield is a gross figure, meaning it doesn't take into account tax; it also doesn't account for any of the additional costs of holding a property.

Median rental yield statistics put together two of the key pieces of data discussed earlier – median prices and median rents – to create an indicative rental return figure.

API publishes median rental yields for thousands of Australian suburbs in its Market Watch section each edition.

Returning to our example suburb, Alawa in the NT, if you take the median advertised rental figure of $475 and the median house price of $470,000, and follow the rental yield calculation outlined earlier, you arrive at an indicative gross rental yield of 5.3 per cent. This would be considered a relatively strong rental return compared to many parts of the country.

Given that calculating median rental yields uses two sets of data (median prices and median rents) that we know have some in-built biases, it's clear that the yields presented are best treated as an indicator of yields in the suburb. Investors shouldn't assume that all properties in the suburb will provide similar returns, because it's simply not realistic.

However, Bell says investors shouldn't ignore the yield data.

"I think yields are very important for investors to look at because they typically move around less than prices and rents, simply because it's a combination of both of them," he says.

"It takes quarters, or months and months and months, for yields to move significantly, so if an area's got a decent yield relative to the rest of the city or the rest of the country then it's probably not going to change in a short period of time."

**Where to find rental yield data:**

As noted, API publishes rental yield data for suburbs in the Market Watch section at the back of the magazine.

## Days on market

Average days on market statistics are a measure of how long it takes to sell property in a given location once it's been advertised.

API publishes days on market data at a suburb level in the Market Watch section at the back of each issue of the magazine, as well as listing days on market statistics for eight major Australian cities in its Databank section.

Looking at our example suburb of Alawa in the April 2010 issue of API, we see that the average time it takes to sell a property in that NT suburb is 89 days, which most investors might regard as a lengthy period of time.

API's days on market data is provided by APM, which calculates the average days on market for each of those locations by taking the difference between the date of the initial advertisement for the sale of the property and the date of the exchange of contracts on that property.

The number of days property sits on the market before sale will give investors a measure of supply and demand in those markets, and Bell believes it's useful for 'hotspotting' type research, trying to uncover good locations for investment.

Lawless rates how long properties take to sell as one of a number of key "leading indicators" for property, alongside the level of vendor discounting, the amount of stock on the market and the number of sales in trend terms. These measures, Lawless says, are useful for analysing the health of a property market.

He rates them as "leading indicators" because compared to median prices, which are a measure of how a market stood at some point in the past, these statistics can provide some insight into where a market is headed.

As well as being a broader measure, useful for analysing a particular property market, at a more granular level the number of days an individual property has been for sale can also provide an indication to a buyer of the level of demand for that particular property.

If a property has been on the market for a long time, it may suggest the vendor will be getting desperate, providing the opportunity for tough negotiation on price and allowing the buyer to get a better deal. However, Armstrong warns this isn't always the case.

"You could also be looking at a really compromised and dud asset, which could be equally as true," he notes.

### Where to find days on market data:

API provides days on market data for Adelaide, Brisbane, Canberra, the Gold Coast, Melbourne, Newcastle, Perth and Sydney in each issue of the magazine (located in the Databank section). It also provides average days on market for thousands of suburbs around the country (in the Market Watch section).

The free searchable suburb profiles provided by property portal Domain (http://bit.ly/duqkjx) include days on market statistics for individual suburbs and regions around the country. Just search for your postcode or suburb of interest.

In terms of researching how long an individual property has been on the market, this is usually a case of careful monitoring of classified advertising online and in print media. However, the website Refinder (http://bit.ly/cdxfWC) attempts to help make this process more accessible, providing an indication of how long individual properties have been on the market, alongside the history of the price being advertised.

## Stock on market

Stock on market, as the name suggests, provides a measure of how many properties in a given location are being advertised for sale at any one time.

The number of listings can provide an indication of the health of a property market, as a sustained rise in the amount of stock on the market may suggest an oversupply situation is developing, with a lot of properties advertised for sale but few willing to buy. Conversely, a drop in advertised listings could suggest the development of a tighter market.

Seasonal factors will also come into play. For instance, listings might be few and far between around Christmas, but much more common in spring. This isn't necessarily a sign of a tight or oversupplied market, but more just a representation of the normal state of affairs given when people choose to sell their properties.

Investors should therefore keep seasonal factors in mind when analysing stock on market figures. Comparing like-for-like figures will help minimise the seasonal issue (i.e. comparing January 2010 figures with January 2009 figures, rather than comparing January 2010 figures with December 2009 data).

API publishes stock on market figures for postcodes around the country in its Databank section at the back of the magazine. API's data, sourced from SQM Research, provides annual comparison points, which help to minimise the seasonal issues.

Returning to our example suburb of Alawa in the NT, it comes within the postcode 0810. The stock on market data published in April 2010 shows that particular postcode had 71 houses and 53 units available for sale in February 2010, compared to 105 houses and 74 units available for sale in February 2009.

This means total stock on market was 30.8 per cent lower in February 2010 than it was in February 2009.

Tim Lawless ranks stock on the market as another of his "leading indicators" for property in a given location.

He also takes his analysis a step further by comparing the stock on the market to the total number of houses or units in a particular suburb.

Investors can do the same by finding the total number of established dwellings in a given postcode (this is available from the Australian Bureau of Statistics' [ABS] most recent Census data, compiled in

2006). To calculate the ratio of available stock to the total dwelling count, divide the stock on market figure by the total established stock figure and then multiply by 100 to obtain a percentage.

"If you see there's, say, 80 per cent of stock on the market, that'll set a few alarm bells off," Lawless says.

For our example of Alawa and postcode 0810, the ABS shows there are 11,299 total private dwellings in the postcode. Thus, the ratio of stock on market to total established stock in January 2010 is calculated in the following manner: 72 houses on the market plus 49 units on the market equals 121 total dwellings on the market, divided by 11,299 total private dwellings, multiplied by 100 equals approximately 1.1 per cent.

It's safe to say having 1.1 per cent of stock on the market won't set any alarm bells ringing about Alawa, though the figure wouldn't have to reach the 80 per cent mark Lawless mentions before investors might want to think heavily about any investments in an area.

### Where to find stock on market data:

As noted, API publishes stock on market data every month towards the back of each issue.

To find ABS figures on total established dwellings in a given location, use the "2006 Census data by location" search tool (available via http://bit.ly/djG9UU).

Alternatively, SQM Research's free demographic data search tool includes information on total established dwellings for postcodes around the country. SQM's graphs include 2006 figures, alongside projections for 2011 and 2016; it's available via http://bit.ly/bxxzsr.

## Rental vacancy rates

Rental vacancy rates are a vital tool for property investors, Wakelin says, as they provide a reliable insight into the balance of supply and demand for rental property. They therefore provide a guide to how difficult it might be to find a tenant to fill an investment property.

Queensland property analyst Michael Matusik says rental vacancy rates have by far the biggest impact on growth in rental rates, adding it's a myth that higher interest rates lead to rising rents.

"Despite what some property commentators seem to think, landlords don't have target yields that need to be met, and even if they did, they're not able to simply flick a switch and increase rents," says Matusik, from Matusik Property Insights. "Most landlords and property managers are rational operators and won't risk a vacant property by lifting rents."

Bell confirms that rental vacancy rates provide good information for investors.

"If there's a low vacancy rate then that's a pretty good indication that there's not going to be any real weakness in the rental market, and that rental growth is going to remain strong," he says.

Lomas suggests investors use vacancy rates as a 'trend' tool, watching to see whether vacancies are moving higher or lower in a given location over time.

"A downward trend indicates increasing demand," she notes. "You must independently confirm what's driving this downward trend to ensure that it's a sustainable factor."

Rental vacancy rates measure the proportion of properties available for rent at a given point in time, compared to the total number of established rental properties.

Like data for the amount of stock on the market, seasonal factors have an effect on vacancy rates, as certain times of the year tend to see more rental listings become available. So again, it's important to compare like-for-like data wherever possible.

API publishes vacancy rates data for postcodes around the country towards the back of each month's issue in the Databank section of the magazine.

API's data is sourced from SQM Research; it collates the data by watching online advertisements for rental property over the timeframe of each calendar month. Properties are classified as vacant if they've been advertised for two weeks or more and are still currently advertised when the data is being collated. To calculate the total number of rental dwellings in a postcode, SQM takes the total established dwellings figure from the 2006 Census and then estimates the total dwellings for more recent years. It then multiplies this by the percentage of renters for each postcode, as also provided in the Census.

The vacancy rate is then calculated by dividing the number of vacant rental properties by the total number of rental properties in each postcode.

### Where to find vacancy rates data:

API publishes vacancy rates in its Databank section each month, as noted.

SQM Research, which provides API's data, also offers a free online search tool allowing investors to view vacancy rates data for individual postcodes over time (http://bit.ly/bxxzsr).

The state and territory Real Estate Institutes also collect rental vacancy rate data for their own jurisdictions, and some of them make this information freely available online. Search online for "real estate institute" and the state or territory you're interested in.

## Auction clearance rates

Matthew Bell says auction clearance rates – which reveal the proportion of properties listed for auction that sold successfully – provide an excellent guide to the health of Australia's biggest property markets, particularly those where the auction is a more popular form of selling property.

"My view is that the clearance rates are a very good indication of how the market's going," Bell says.

"If I look back at a chart of... auction clearance rates versus how prices did move when that data

eventually comes through, the correlation is amazing. That's why it's reported quite widely and we keep a very close track of it… It does give a very good indication of whether the market's hot or whether it's cold."

**"If I look back at a chart of… auction clearance rates versus how prices did move when that data eventually comes through, the correlation is amazing."**

Clearance rates provide a clearer picture of the state of the market in Sydney and Melbourne than elsewhere in the country, Bell notes.

"You have Melbourne, where auctions are up to close to 20 per cent of the number of sales, and Sydney above 10 per cent, but closer to 10 per cent. Canberra's good too. We produce data for Adelaide and Brisbane as well but the volumes are so much lower, so the correlation isn't as strong – but they do still give that early indication of whether a market's, mainly in Adelaide and Brisbane whether it's moving up, whether it's moving down or staying flat."

Bell says auction clearance rates aren't quite a true 'forward indicator', but they're about as current as property data gets.

"The problem with all property data is most of it's lagging. Auction clearance rates is about as current as you're going to get in terms of how the market's going…

"In terms of things that correlate directly to price, and the relationship is easy to see, I think it's those auctions clearance rates and auction volumes."

Monique Wakelin isn't quite as convinced about the importance of auction clearance rates, saying they have limited use in analysing the property market.

"They give you an indication of the balance of supply and demand, and that's about it," Wakelin says.

And Margaret Lomas is more dismissive still, saying that if clearance rates are low "it might have just been a stormy day".

Armstrong says clearance rates do provide an indication of whether a particular market is running hot or is a little weaker, but they're not really of importance for individual property selection.

He adds that attending auctions in your area of interest will provide a better sense of what's going on than looking at statistics telling you what proportion of properties in a given city sold.

"The best way to know what's going on in the market is to actually be at the auctions," he says, adding that this is the only way to know how many active bidders there were and how strong competition was for the property.

API published auction clearance rates for seven Australian cities each month. The data is sourced from APM, which sources information on whether properties sold via auction directly from agents, as well as

from its own monitors who attend auctions and from advertisements. Auction clearance rates only provide a limited insight into the property market, as not all properties go to auction. In fact, in most Australian cities only a small minority of properties are sold via auction. In Melbourne and Sydney, the proportion is higher, especially in inner-ring suburbs.

The clearance rates data tends to have a relatively small sample size and bounces around from week to week. API publishes monthly data, which has a larger sample size.

Bell explains that APM has a team of workers collecting its auction clearance rates data each weekend.

"By far the majority of auctions are conducted on a Saturday. We have a group of employees in here on a Saturday literally calling real estate agents across all states. We've got a list of properties listed for auction and then we collect as many results as we can on a Saturday," he says.

This tells you how many properties were listed for auction, how many were auctioned, and how many were sold, including the average price.

"Sales are continued to be collected for the next few days and throughout the week, so then we get a more final number," Bell says.

He's looked at how the numbers released on a Saturday night compare to the final data a year later, once everything has flowed through all the official channels.

"The review isn't much. The clearance rates might change by one per cent or two per cent, particularly in Sydney, so there's not a lot of review, which leads me to believe those preliminary numbers that come out on a Saturday evening are very, very accurate and that they won't be revised much.

"When you put those against price changes historically, when you eventually know them, they give an excellent indication of not only the direction but the level of price growth or price falls in that area."

The adjusted clearance rate figures take into account the number of withdrawn auctions, creating a "conservative" figure, Bell says.

### Where to find auction clearance rates:

API publishes month-by-month auction clearance rates for Sydney, Melbourne, Brisbane, Adelaide, Perth, Canberra and the Gold Coast every month in the Databank section of the magazine.

APM makes weekend auction results for Sydney, Melbourne, Brisbane and Adelaide freely available online (http://bit.ly/bwXEzb) each week. The suburb search tool on the same website provides annual auction clearance rate data for individual suburbs around the country.

RP Data also publishes weekly auction results, with an archive available on the news page of its website (http://bit.ly/bZffJY).

## Vendor discounting

Vendor discounting data provides a measure of the average reduction in price between the first time a property is advertised on the market and its final sale price.

Lawless rates vendor discounting as another of his 'leading indicators' that provide insight into where a particular property market is headed.

API publishes month-by-month data tracking the average discount for private treaty sales in eight Australian cities every month. The percentages displayed represent the difference between the initial advertised asking price of a property and the sold price of the same property.

This information provides an insight into how wide the gap is between what vendors initially want for their properties and what they're actually able to sell them for.

Smaller percentages suggest a strong market and realistic vendors, while larger figures might be a pointer towards a sluggish market and/or unrealistic vendor expectations.

Lomas suggests this kind of data can prove useful in negotiations, as a hint on how hard to negotiate. However, she notes that a good property won't have the same level of discounting as the average across a suburb or city.

Bell says data on the level of vendor discounting can provide an indication of whether the market is running hot or cold.

"Level of discounting gives a good indication of the demand in the market… It's a bit of a hard one because it's an indication not only of what people are willing to pay but people's expectations as well."

As well as the data being released on particular cities, investors could track discounting themselves on a more local level via real estate agents.

"There will be periods where people are getting what I say is a 'negative discount'. They're getting more than the asking price… But that sort of stuff won't be known for months after the event when the official data flows through to the valuers' general," he notes.

On an individual property level, it can be useful for investors to know what the initial asking price of a property was, and whether there have been any price discounts before they came across the marketing for the property.

If the marketing agent is tight-lipped on these matters, there are a number of online tools that can help identify the level of discounting on a given property.

### Where to find vendor discounting data:

API publishes the average private treaty discount being recorded each month in Adelaide, Brisbane, Canberra, the Gold Coast, Melbourne, Newcastle, Perth and Sydney. The figures, sourced from APM, are included in the Databank section at the back of each issue of the magazine.

APM also makes suburb-specific data on the level of discounting (on an annual basis) via the suburb search tool on its Home Price Guide website (http://bit.ly/bwXEzb). Domain also provides vendor discounting details via its suburb profiles search (http://bit.ly/duqkjx).

For individual properties, the Refinder website (http://bit.ly/cdxfWC) tracks the real estate advertising history of properties available on a number of different Australian property portals, displaying the history of asking prices.

The Old Listings website (http://bit.ly/blxArl) can also help if a property was previously advertised with a different agency, as it keeps a record of previous listings via online property portals.

SQM Research (http://bit.ly/m19r) also sells "Home Discounts Reports", which identify properties in a given postcode that have been listed for two months or more and then display the initial asking price alongside the current asking price.

## Population

In terms of population, there are two important statistics for property investors to examine: population size and population growth.

The size of the population in a given suburb, town or city will provide an indication of what types of services you could expect nearby, as well as how big the pool of potential tenants you're drawing from is.

Population growth gives an indication of whether an area is prospering, whether its economy is going forward or struggling, and whether demand for housing is growing.

Matthew Bell says population data is very important for longer-term views of the property market, especially in terms of Australia-wide or city-wide prices.

"They're things that don't change quickly either, which is why I guess my outlook is generally positive because while we've got that strong population growth, not enough houses being built, strong income growth and all those sorts of things, it's really hard to see property falling across the market."

However, there are definitely limits to how much a figure like population size or population growth can tell you about the market.

"Those big demographic things were still looking positive even when house prices fell in the GFC in Australia by about five per cent, so they can't overcome some short-term ructions in the market, but as a medium and long-term predictor I think they're very good and I track them very closely," Bell says.

On a suburb level, Bell believes population growth would be a figure worth looking at.

"At a very simple level, I would think that if a postcode had projected population growth well above the rest of the city then that would be a very good indicator about the demand for property – and taking into account whether there's enough new properties being built.

## "The smaller the population base, the higher potential for a more volatile market due to fluctuations in demand."

"You could easily get from that a pretty accurate view of whether property prices, rents and rental yields in that area are going to go up or down."

Population size, Armstrong says, flows through to stability in demand in the market.

"The smaller the population base, the higher potential for a more volatile market due to fluctuations in demand," he says.

But he's not convinced strong population growth is always a positive sign for a local property market.

"Strong population growth, we don't view that as an indicator of strong capital growth. It's actually an indicator of supply. If you've got the population growing at 10 per cent or 15 per cent per annum, which is five to 10 times the national average, that's a sign that there's a lot of available real estate in that area, and it's a sign of actually potentially low or volatile capital growth."

Lomas, on the other hand, believes population growth above the national average is one indicator to look for in a good investment location.

"(Population) growth is more important than size but again, and like all data, one stat must then be considered in light of other information," she says. "Why is it growing? Are the drivers of this growth sustainable or one off?"

### Where to find population data:

The ABS provides population size data for locations around the country, including suburbs, local council areas, statistical districts and cities.

To find ABS figures on population size in a given location, use the "2006 Census data by location" search tool (available via http://bit.ly/djG9UU).

The ABS' population projections and much more can be found via its "Population trends and estimates" page (available via http://bit.ly/9LlmSA).

SQM Research's free demographic data search tool includes "annualised population change" statistics for postcodes around the country, as well as projections on population growth to 2016. The tool is available via http://bit.ly/bxxzsr.

## Demographics

The ABS Census data contains extensive demographic information about suburbs and cities across Australia, including: details on the age of local residents; their family characteristics; occupation and income; monthly loan repayments; dwelling types; and property ownership status.

All of this data can be useful for property investors who might want to know as much as possible about the local population, so as to understand who their potential tenants are and what sort of property they might be interested in.

Following is a brief rundown of the types of demographic data available from the ABS and a simple illustration of what it might tell investors about a particular market.

**Age.** Census data reveals what proportion of residents are within certain age groups, with the youngest being 'zero to four years' and the oldest being '65 years and older'. If there are a lot of younger residents, perhaps a share house type rental would be attractive, or if there are a lot of children, perhaps your rental should be targeted at families.

**Family characteristics.** Investors can discover what proportion of the population are represented by family groups such as "couple families with children", "couple families without children" and "one parent families". It also includes information on how many people are living in "family households", as opposed to "lone person households" and "group households". As Lomas suggests earlier, this may provide an indication of the type of property (house or unit) most likely to be in demand.

**Occupation and income.** Investors can discover which industries are the major employers in the area, what occupational category most workers fall into (eg. professionals; managers; clerical and administrative workers; technicians and trades workers; sales workers; labourers), and what proportion of the population is in full-time or part-time employment. The ABS also reveals the median individual income, median household income and median family income. This sort of data may allow investors to target their investment properties at a particular segment of the population, especially if one group dominates in a given location.

**Monthly loan repayments.** The ABS provides the median housing loan repayment (per month) among mortgage holders, which could give investors an indication of what residents might be able to afford in terms of paying for housing.

**Dwelling types.** Investors can find out how many residential properties there are in a given suburb or city, and what percentage of those dwellings are separate houses, semi-detached houses and units. This will give an indication of what sorts of property are typical in the area, and what might be in demand from local residents.

**Property ownership status.** The ABS collates data on what proportion of residential properties in each suburb are "fully owned", what proportion are "being purchased" and what proportion are "rented". It also reveals the mix of public and private rental housing. This sort of data can again give investors guidance on what type of market they're buying into.

Lomas says this kind of demographic data is most helpful in allowing investors to choose a property type that's most likely to be in demand by the available renters.

"For example, lots of families dictate the need to buy a house (but) lots of couples, perhaps a unit," she says.

Armstrong says some of the detailed breakdowns of dwelling characteristics are particularly useful.

"You can really break down any suburb around the country and work out what is the percentage of home ownership or investor ownership and also out of the homeowners, how many of them have debt on their properties and how many own their properties outright," he explains.

"That gives us a really good, clear indication of stability in pricing when interest rates go up."

If a high proportion of the population holds properties with no debt, then that location will remain more solid when interest rates rise, he suggests.

Armstrong also believes the proportion of owners versus renters in a suburb provides a useful insight for investors.

"If we're looking at good, safe growth markets then we like to see an even balance between owners and tenants," he notes.

"The reason for that is they tend to work counter-cyclically. When investors are very active in the market, homeowners aren't, and when homeowners are very active in the market, investors aren't. So if you've got strong demand from homeowners and strong demand from investors, it means that regardless of where we are in the market cycle, one of those two groups is putting pressure on values."

A very high proportion of either investors or homeowners is an indicator of volatility in that market "because when one sector drops out there's no support from the other sector to come in and underpin it", he adds.

## Where to find demographic data:

The ABS provides all this demographic data for locations around the country, including suburbs, local council areas, statistical districts and cities.

To find ABS figures on population size in a given location, use the "2006 Census data by location" search tool (available via http://bit.ly/djG9UU).

The results provide information about the selected region, as well as a comparison to the Australian average, which is useful for investors so they can see how the selected area compares with the rest of the country.

Real estate portal domain.com.au also provides demographic data in its easy-to-use and free "suburb profile" search tool (http://bit.ly/duqkjx). Rather than using Australia-wide averages as its point of comparison, Domain provides averages for the capital city or state an area is located in, giving investors an extra piece of data to examine.

RP Data's free "suburb profile" search tool (http://bit.ly/dcVQrO) and SQM Research's free demographic data search tool (http://bit.ly/bxxzsr) provide similar types of data in a graph format, which some investors may find easier to read. SQM's tool provides projections for the data out to 2011 and 2016.

## Comparable sales

Tim Lawless says comparable sales are the "real gold" for investors looking to make investment decisions. Comparable sales are essentially the sale prices of similar homes in the same locality as the target property.

"Before making an investment decision, you really need to be drilling down a little bit further (than median prices) and actually looking at comparable sales, which are probably the real key to understanding what a particular property should be bought for," Lawless says.

Independent valuers use comparable sales to determine the value of a property for lending purposes, so it's important for investors to understand how to use them to determine whether they're getting a good deal.

Herron Todd White valuer Kieran Clair says lenders demand that comparable sales are no more than six months old, and preferably within three months of the valuation being carried out.

Clair says he'll start a search for comparable sales within a 500-metre radius of the target property and then move further out if necessary.

Lenders prefer to see sales within 10 per cent of the assessed value of the target property, so it's important to look at truly comparable property, Clair adds.

Clair says six comparable sales will generally provide a clear picture of a property's value.

"You look at six and you can usually give less weight to one or two of them because they'll appear out of line," he notes. "With a bit of research you can usually discover that it might have been a distressed vendor or something similar."

Comparable sales are also what Monique Wakelin was talking about when she mentioned monitoring sales results and auctions results in newspapers. She says recent sales in a suburb are the best way to get a sense of what's happening in the market, as they're not a historical measure in the way that median prices are.

"You're comparing immediate data," she notes. "It's not months old, it's not six weeks old or four weeks old. It's a day old and that's why it's reliable."

It's "vitally important" for investors to look at comparable sales, Armstrong says, but he warns people need to make sure the sales truly are comparable by having physically inspected those properties themselves.

"You can look at a photo and say they look similar, but does it need restumping out the back and was the other one all renovated, and how big was it, and how much natural light was there?

"Photos can be photoshopped (doctored). You've got to actually go in and physically experience the properties to work out if it is a true comprable."

Matthew Bell confirms that examining comparable sales is "particularly important" for investors. He says even if investors have to pay to get a comparable sales report, they'd find it's money well spent.

"When I look at property and when other investors look at property, it's such a small cost compared to what you may or may not pay in the market."

Such reports typically provide photos and all the data about each property sold over the past 12 months or 24 months.

"If you can't get a good idea about how the market is moving and what the level of sales is from comparable sales reports, then there's not much else that's going to help you," Bell says. "And they're objective as well. It's good to talk to agents and get their view but they've got a bit of a vested interest as well, whereas these reports are government-reported data."

### Where to find comparable sales:

Lawless says comparable sales data is becoming increasingly easy to access for free.

Property portals have started publishing details of recent sales in property search results. On realestate.com.au for instance, if you search for property in a given suburb and click through to one of the featured properties, you only need to scroll down to find a list of local sales. These won't all be truly comparable to the property you might be looking at, but they provide a starting point for further research.

APM has a similar free listing of recent sales available via its Home Price Guide website (http://bit.ly/bwXEzb), and sells more comprehensive listings of sales over the past two years.

RP Data (http://bit.ly/bwXJhE) also offers recent sales reports for a fee, as do other real estate information providers such as www.propertyvalue.com.au and www.homeguru.com.au.

Perhaps the most common way of accessing this sort of information (and the cheapest) is more old-fashioned: speaking to agents who've sold property in the area. By monitoring local sales, possibly even keeping a database of comparable sales over time, investors can get a good view of what's happening in the market.

## Sales history

Many investors are interested to find out the last sale price for a property they're considering buying. Unless the sale was particularly recent, the price is unlikely to be particularly relevant to the current value, but it's certainly interesting from a voyeuristic perspective to know how much the vendor originally paid for the property. Be aware though that the last sale price won't take into account any money the owner spent renovating or improving the property.

### Where to find the sales history:

APM (http://bit.ly/bwXEzb) offers investors the ability to buy a report showing all sale prices in a given street over the past 20 years.

RP Data (http://bit.ly/bwXJhE) offers a detailed report on an individual property, including the current owners and sales history. It also offers a report outlining property sales in a given street over the past 10 years. Both reports are available for a fee. RP Data subscribers can also search for this same information.

Property research website On The House (http://bit.ly/9GvWwM) offers a free mapping service that includes the last known sale price and date for individual properties.

Alternatively, a friendly local real estate agent (though usually not the vendor's agent) may look this figure up for you on RP Data.

## Supply and demand

"Supply and demand" is the golden rule for determining price in the property market, but trying to determine how the two factors match up is a difficult equation.

It typically involves piecing together multiple points of data and trying to decide how they're aligned at a particular point in time. Property watcher Jeremy Sheppard outlines one such approach in the case study at the end of this eReport.

On a simpler level, the property search engine realestate.com.au provides graphs for each suburb around Australia, showing how many people are searching for property in that location compared to how much property is available for sale.

This can provide a simple snapshot of how supply and demand trends are shaping up.

### Where to find supply and demand data:

From the realestate.com.au homepage, select "Suburb Data" from the left-hand navigation. Then choose the state and suburb you're interested in.

You'll be presented with graphs showing movements in median price and supply and demand, as well as a list of recent sales in the area.

## Land value

Mark Armstrong believes studying underlying land values is a great data point for property investors, especially when analysing the investment potential of an individual property.

Armstrong's office uses a database to keep a constant track of what land is worth per square metre within its areas of interest.

"We use that to determine the land-to-asset ratio," Armstrong explains. The starting point of

determining that is knowing the value of the land per square metre." He adds, "Land-to-asset ratio is a really important indicator to tell us what type of asset and what's the likely performance of that asset over time."

The ideal land-to-asset ratio will vary depending on what investors want to achieve, Armstrong says.

"If we're looking for pure growth investors, we're looking at a land-to-asset ratio of around 60 per cent.

"If we're looking at development sites, land-to-value ratio should be a lot lower. You'd like to try to get around 10 per cent, although for small-scale developments that's pretty hard… I would say somewhere between 10 per cent to 30 per cent for development.

"For cash flow driven investors, it depends how much cash flow you're really looking to drive out of it. The lower the land-to-asset ratio, the higher the potential yield, but on the downside, the lower the capital growth."

When looking at a development site, the asset value used in the land-to-asset ratio calculation is the final value of the finished product, Armstrong notes.

"If you've got a block of land that's worth $500,000 and you're going to build two townhouses and sell them both for $500,000 each… the land-to-asset ratio there is 50 per cent; it's too high," he says.

"If you got three townhouses on the block of land and they're still worth $500,000… well your land-to-asset ratio starts to look a little bit better."

Armstrong says calculating land-to-asset ratios isn't an "exact science", but it's a helpful exercise.

"You're not going to come up with an exact figure of land-to-asset ratio. It's an indicator of land-to-asset ratio."

### Where to find land value data:

There's no easy way to figure out the land value of property in a particular area. It's a matter of tracking recent sales of vacant land and then trying to figure out a value per square metre.

Investors can find recent land sales in the same way and the same places they find "comparable sales", as outlined above.

## Automated valuations

Automated valuations (also known as AVMs, standing for 'automated valuation model') provide the estimated market price of a property using comparable sales and statistical modelling.

These computer-generated valuations have essentially been developed as an alternative to having an independent valuer visit a property and conduct a full analysis.

Many Australian banks, financial institutions and mortgage insurers now use automated valuations in

some situations to reduce costs and speed up their loan approval process. Matthew Bell says automated valuations can never make up for a full valuation, but do provide a "good basic indication" of a property's value.

"I don't think they can take over for looking at a list of comparable sales or talking to agents," he adds.

However, they may be particularly useful for investors who are entering a market they don't know particularly well, and to guard against the risks of two-tier selling and being conned by a property spruiker, Bell notes.

"If you have a broad idea of what the actual price may be in this current market then that can save you a lot of pain," he says.

Tim Lawless says automated valuations are becoming more and more widespread, but their usefulness varies depending on the market an investor is looking at.

"They can be useful as long as they're in an area that has a lot of comparable sales and you have the attribute data for the properties," he says.

On the other hand, they don't work very well in suburbs with a lot of unique housing. It takes a person to figure out how much a view is worth, or an extensive renovation, Lawless notes.

Nonetheless, today's automated valuations can take into account a wide range of factors, including:

- type of property, number of bedrooms, bathrooms, parking, land size and features;
- comparable sales in the area;
- current market trends;
- distance to bodies of water, train lines and views.

Bell notes that just as valuers are allowed a margin of error on their independent valuation reports, automated valuations will also have a margin of error. This is typically in the order of 10 per cent to 15 per cent, although some investors have reported automated valuations that have missed the mark on their properties by much more.

### Where to find automated valuations:

Investors can get access to both free and paid automated valuations for their properties.

RP Data (http://bit.ly/bwXJhE), APM (http://bit.ly/aErRHG) and Residex (http://bit.ly/bMNiHc) offer paid reports that include price estimates based on their own AVMs.

A Residex-operated website called Find Me A Home (http://bit.ly/bNCZOg) offers price estimates for properties across the nation, based partly on information the user puts in about the condition of the property. The estimates are available for free, although visitors must register to download them. Residex warns the valuations on this site are provided "as general guidance only".

## Location

Although it mightn't exactly qualify as property "data", there's a wide array of information available about the location of a particular property, which investors can utilise without leaving the comfort of their home or office.

Australia's major property portals, realestate.com.au and domain.com.au, both offer satellite mapping built into their sites now.

For those who haven't already used it, Google Street View (http://bit.ly/39palZ) is a free service from the global search giant that takes things a step further, allowing users to essentially 'walk' down almost any street in Australia, and inspect properties from the outside. The photos are snapped using a car equipped with special cameras; the car has been driven along most streets in major Australians cities.

The simplest way to use this service is to visit Google Maps (http://bit.ly/aef7IP) and search for the property address you're interested in. You'll be presented with an overhead satellite map, with a small icon pointing to that address.

Towards the top left-hand corner of that map, click on the yellow icon representing a man and drag the figure onto the street location outside your target property. You'll suddenly find yourself on the street looking at the property you're interested in (or maybe the one across the road).

You can now look around in any direction and use the arrows to walk back and forward along the street. This tool allows investors to get a feel for the neighbourhood they're looking at buying in without leaving the comfort of their computer chair.

Of course, it has its limitations. You can't hear the road noise, or chat to the neighbours, or visit the local shops. Also, the maps and images aren't constantly updated, so sometimes if things have changed they'll be out of date. Still, it can provide a useful snapshot of local conditions.

Another tool is Google Real Estate (http://bit.ly/4ihDH), which allows users to search for properties for sale. Visit the page listed above and type your suburb of interest into the search box, and you'll be presented with a map of properties for sale.

If you can find your target property listed for sale (the listings aren't as comprehensive as some major property portals), click on its icon and then choose "search nearby" to find nearby schools, restaurants and (in some locations) public transport facilities. You can also look up estimated travel times between your target property and your work or your children's schools.

The website Walkscore (http://bit.ly/17HQgZ) taps into the Google Maps database to provide a 'walkability' score for any address. In other words, it looks at what shops, schools, universities, parks and more are within walking distance of the property and reports back. One of the limitations of this website, at the time of writing at least, was that it didn't account for proximity to public transport. Still, it's a handy tool to have at your fingertips.

Another online tool for finding out more about the community around your targeted investment property is realestate.com.au's Local Voices section (http://bit.ly/1pY10j), where local residents can log

in and post information about their community, including rankings of what it's like to live on a particular street. Simply visit the site and plug in your area of interest.

## Case study

### Supply and demand

Investors can tie together a whole pile of property data to analyse supply and demand in the market, writes *Jeremy Sheppard* of Mustard Solutions.

If you can come up with a way of analysing supply and demand, you can confirm or deny what you believe about a location's future growth prospects.

When demand for property is high and supply is low, prices go up. It's a well-known law of economics. In fact, nothing else affects prices – only supply and demand.

Most experts will tell you that in order to get capital growth you should search for areas close to schools and shops with good transport, preferably with water views and close to the CBD in a suburb with a café culture, emerging businesses, entertainment venues, hospitals, universities, parks, character housing… and the list goes on.

These types of locations should definitely be in demand from buyers. But there are two shortcomings with this kind of advice:

- No objectivity in determining the level of demand; and
- No consideration of the other side of the equation – supply.

If there's an oversupply of property, prices will fall. So investors should perform research to also determine the supply characteristics of an area. You should consider both sides of the equation. In other words, you should know the demand to supply ratio (DSR).

With regard to objectivity, it's no good simply saying, "Properties are in demand in suburb XYZ and there's not much supply."

How much are they in demand? How limited is the supply? Is suburb XYZ better than suburb ABC? You need to be calculated in your reckoning. Ideally, you'd want a number for the DSR for a location.

If you can come up with a value for the DSR for an area, then you know the level of pressure on property prices in that area.

To come up with a DSR figure you need figures for demand and you need figures for supply. Then you divide the demand figures by the supply figures and there's your DSR. The higher the DSR, the bigger the future growth will be. And conversely, the lower the DSR, the bigger the fall will be.

There are two approaches to getting demand and supply information: guesstimates and statistics. Both are notorious liars, so you'll need to be careful in how you go about analysing the data.

Guesstimates (aka fundamentals) is the method investors use most commonly. It's a case of observing

fundamental characteristics of a location. For example, you notice various demand characteristics such as cafés opening on every corner, local businesses hiring more staff, a new school is being built, etc.

Similarly, you may get an idea of supply characteristics by checking what development plans have been lodged with the local council recently or whether there are many vacant blocks available in the area, etc.

I call them "guesstimates" because they have no objective figure. They can also be called "fundamentals" because they consider the fundamental drivers of price growth. The point is, they're not quantitative in nature. They're dependent on the investor's "feel" for demand and supply in the area.

You can get around this problem to some extent by giving a score between one and 10 for each fundamental supply-and-demand characteristic. And then rank the characteristics in terms of importance. See Table 1 for an example.

**Table 1: Supply and demand characteristics**

| Demand characteristics | Score (out of 10) | Importance (out of 10) | Value |
|---|---|---|---|
| Water views | 0 | 9 | 0 |
| Shopping | 6 | 8 | 48 |
| Schools | 4 | 7 | 28 |
| Public transport | 5 | 7 | 35 |
| Restaurants, clubs and bars | 6 | 8 | 48 |
| Parks | 4 | 6 | 24 |
| Etc. | … | … | … |
| Total | 33 | | 183 |
| **Supply characteristics** | **Score (out of 10)** | **Importance (out of 10)** | **Value** |
| Building activity | 3 | 7 | 21 |
| Development applications | 4 | 5 | 20 |
| Blocks of vacant land | 1 | 9 | 9 |
| Etc. | … | … | … |
| Total | 10 | | 62 |
| DSR | | | 2.95 |

The demand characteristic is multiplied by its importance factor and similarly with the supply characteristics. Then the total demand (183 in the example) is divided by the total supply (62) to get the DSR (2.95).

If you follow this procedure consistently for a number of locations, you'll begin to know what a good fundamental DSR is and what a bad one is.

Although this method is still rather subjective, it provides insight into the long-term growth prospects of a suburb, whereas statistics only show the current prospects for growth, which may change in six month.

Statistics are objective but suffer from anomalies. The trick to using statistics is to gather as many as possible from as many varying sources as possible to hopefully filter out such anomalies.

There are supply and demand statistics of interest readily available. These make it quick and easy to see if a suburb of interest warrants further in-depth research using the guesstimate/fundamental method described earlier.

You can determine a DSR for the suburb of your choice right now in 10 minutes if you have internet access. Use the following procedure to gather demand and supply statistics about your chosen suburb, revisiting some of the topics already discussed in this eReport.

## Days on market

This is the average number of days a property will be for sale before eventually selling. If this figure is low, it means either there's high demand from buyers or low supply from sellers or both. The buyers act quickly on an opportunity before competing buyers snap it up.

This figure for a suburb can easily be found at the back of every issue of API. Be sure to check figures for both houses and units since they may differ significantly.

Each suburb has a different time on market profile. So what might be slow for one suburb could be fast for another. Expensive properties usually take longer to sell than cheaper ones.

In general, if a property spends 50 days or fewer on the market, I would consider that to be a hot market. With 100 days or more, I'd consider that a cold market.

## Vendor discount

This is the average difference between the original listing price and the eventual selling price for properties in a suburb. A low discount figure shows strong demand from buyers to meet the price of the sellers. The buyers are more easily meeting the expectations of sellers. The sellers are in control and there's less opportunity for negotiation on price.

This figure can be found from the suburb profile on the Domain website (http://bit.ly/duqkjx). Click on "Property Reports" then enter a suburb for the "Suburb Profile" and click "search". Scroll down to the property prices for houses and units just under the map of the suburb. There's a line labelled "Discounting". Check the figures for both houses and units.

A discount of around four per cent or lower is considered a seller's market with high demand, in my opinion. A discount of eight per cent or more is a buyer's market – low demand.

### Auction clearance rates

This is the percentage of auctions that result in a sale. A sale at auction is more likely to occur when there's high demand and low supply. This figure can be found from the Domain website for the last month of auctions in the same manner as you found the discount earlier.

The auction clearance rate can also be found for the last week of auctions from the www.realestate.com.au website. Click on "Auction Results" in the left menu.

As a rough guide a clearance rate of 80 per cent or more is considered high, 70 per cent is good and less than 60 per cent is considered low (although this varies considerably from city to city).

### Stock on market as percentage of dwellings

This is the number of properties currently for sale in a suburb as a percentage of the number of properties in that suburb.

Not all suburbs are the same size. Fifty properties for sale in a suburb may mean a high supply if there are only 1000 properties in the area in total. But if there are 20,000 properties in that suburb in total, 50 would mean a low supply. So we need to calculate the number of properties for sale as a percentage of properties in total.

A low figure represents an undersupply of properties. Either there are few new dwellings being built or the existing ones are tightly held by owners.

The stock on market figures are also published in the back of API, while the total number of properties in a suburb can be found on the ABS website (as described earlier in this eReport).

As a rough guide I'd say that anything more than three per cent is a fail and anything less than one per cent is a pass.

### Rental yield

The average yield for a suburb is easy to find. Turn to the Market Watch pages in the back of API. A high rental yield means there's high demand from renters but low supply. It represents a high "rental" DSR. But we want high "owner" DSR. High demand from renters doesn't immediately translate to demand from buyers, but probably will some time in the not too distant future since a high rental yield usually precedes strong price growth. Any yield above five per cent is considered good. But each location has its own yield characteristics. Expensive suburbs have traditionally low yields. Familiarity with a suburb's normal yield will highlight when it's unusually high.

### Vacancy rate

A low vacancy rate means that there is either high demand for rental accommodation or low supply, or

both. This data can be found for a suburb from the back of API. A three per cent vacancy rate is considered a normal vacancy rate. Four per cent and above should trigger alarm bells. Two per cent is a tight market and one per cent or lower means there's a rental boom due soon.

## Rental availability

Ideally you want few properties for rent as a percentage of properties in the suburb. A low figure here represents a high proportion of owner-occupiers to investors or an undersupply of rental properties.

The proportion of renters to owners can be obtained from websites like the Domain suburb profile mentioned earlier.

Approximately 30 per cent of property owners are investors. So if there are less than 30 per cent renters in a suburb, that's generally good.

## Online search demand to advertised supply

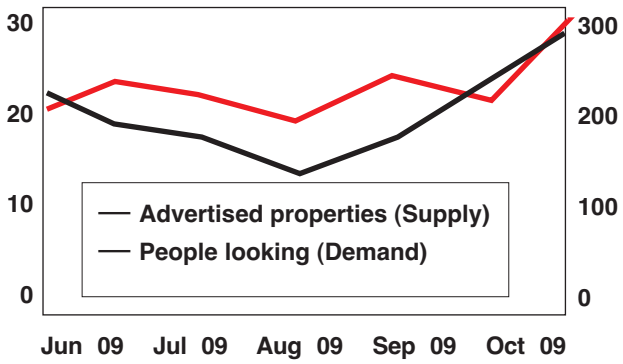
At the time of writing this can only be found on the www.realestate.com.au website. It shows the number of searches performed on their website, compared to the number of properties available.

Click on the "Suburb Data" menu on the left of the realestate.com.au homepage and select a state and suburb. If you scroll down you'll see something like chart 1.

The blue line shows the change in the number of advertised properties in the suburb of interest. The green line shows the number of people looking for properties in that suburb.

Note that because of scaling on the axes, the lines will always be relatively close to each other. So

**Chart 1**




ignore the lines and focus on the figures. In the above example, there were 300 searches for property and 30 properties listed. This is about a 10:1 ratio of searchers (demand) to advertised properties (supply). A 10:1 ratio is low demand. High demand would be a 30:1 ratio or higher.

## Putting it all together

By now you should have eight statistics. We now need to combine them in a way to calculate a single DSR estimate. You just need to be careful how you combine these to get a single figure.

Because statistics can be big liars, some of the figures could be extreme in some suburbs some of the time. These anomalies need to be treated carefully so the DSR value isn't skewed too much from one bad statistic.

**Table 2: Calculating DSR values**

| Statistic | Value | Pass/Fail |
|---|---|---|
| Rental yield | 5.6% | Pass |
| Auction clearance rate | 60.0% | Fail |
| Vendor discounting | 4.8% | Pass |
| Days on market | 88 | Fail |
| Stock on market as percentage of dwellings | 0.5% | Pass |
| Vacancy rate | 1.1% | Pass |
| Rental availability | 40.0% | Fail |
| Online search demand to supply | 15 | Fail |
| Total | | 4/8 |

In this example, there aren't enough ticks to consider this suburb as having a good statistical demand to supply ratio. (The fundamentals may be good though).

Another option might be to have a range of values for each statistic. For example: very good; good; normal; bad; or very bad. You might also like to apply a scaling factor, giving more credit to statistics you consider to be more important.

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